



Department of Justice

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JUSTICE DEPARTMENT REQUIRES RAYTHEON TO SELL KEY ELECTRONICS BUSINESSES IN ORDER TO GO FORWARD WITH ITS HUGHES AIRCRAFT DEAL

Justice Says Divestitures and Other Relief Will Preserve Competition For Military Infrared Sensors and Tactical Missiles

WASHINGTON, D.C. -- The Department of Justice reached an agreement today with Raytheon Company that will allow the company to go forward with its \$5.1 billion acquisition of General Motors Corporation's Hughes Aircraft Company subsidiary, but only if Raytheon sells two critical defense electronics businesses, and sets up firewalls to preserve competition on an upcoming bid for a new missile. Today's agreement will result in the largest divestiture since the end of the Cold War, when efforts to consolidate the defense industry began.

The Department said that the agreement will preserve competition in the research, development, and sale of electro-optical systems for ground vehicles, and in the sophisticated infrared sensors used in both ground and aviation weapons systems. The agreement will also preserve competition in the production of a new, advanced missile that the Army intends to be its primary antitank missile.

"The U.S. military needs weapons at prices American taxpayers can afford. And if we are to insure future innovations that will protect our armed services, we must be sure that competitive conditions are preserved," said Joel I. Klein,

Assistant Attorney General in charge of the Department's Antitrust Division. "Today's agreement demonstrates the Division's absolute commitment to protect competition in the defense industry even as a considerable amount of consolidation occurs as a result of the substantial post-Cold War build down."

The Department also said that it would continue to monitor negotiations between the two companies and the Department of Defense regarding the benefits that will be passed along to the government because of the substantial efficiencies the parties expect to achieve by combining the production of their AMRAAM missiles, a medium range air-to-air missile. Although the Department expects that these negotiations will be concluded successfully, it will not file its complaint and proposed settlement with the court until that happens.

The Antitrust Division concluded that Raytheon's original proposal to acquire Hughes would have substantially lessened competition in both infrared sensors and electro-optical systems. To satisfy the Division's concern, Raytheon has agreed to sell off the Dallas-based infrared sensor business it recently acquired from Texas Instruments, as well as the ground electro-optical systems businesses located in El Segundo, California and La Grange, Georgia, that it had proposed to purchase from Hughes. Under the terms of the agreement, these two businesses will be preserved as separate entities by Raytheon until they are sold. Also, any purchase of these businesses must be approved by the Antitrust Division and Department of Defense, so that the competitive viability of the businesses can be ensured.

Infrared sensors detect the radiation, or heat, that is emitted by all objects. The sensors can be used to create television-like images in total darkness. Infrared sensors are a primary component of electro-optical systems, which can be used for "night vision" surveillance and in detecting and guiding weapons to their targets.

Raytheon and Hughes are both leaders in the development and production of infrared sensors. Both companies also supply electro-optical systems to the U.S. military for a wide variety of applications, including use in certain ground military vehicles such as the M-1 Abrams Tank and the M-2 Bradley Fighting Vehicle.

Today's agreement also includes provisions to protect competition during the bidding for a new advanced antitank missile system, the Follow-On-To-TOW or FOTT program, which is designed to replace the widely used TOW wire-guided missile. The contract for this program should be awarded in the first half of 1998, and Hughes and a joint venture of Raytheon and Lockheed Martin will be bidders.

The agreement between the Antitrust Division and Raytheon preserves the independence of the two competing teams by requiring Raytheon to establish "firewalls" that essentially seal off the Raytheon/Lockheed Martin and Hughes FOTT teams from each other and from the upper management of Raytheon. These measures should preserve aggressive competition in the bidding for the FOTT program.

Klein said that the Justice Department and the Department of Defense have been working closely and effectively on the Raytheon/Hughes deal, and will continue to cooperate and coordinate on other defense industry mergers.

Raytheon is a Delaware corporation headquartered in Lexington, Massachusetts. Raytheon's 1996 sales, including the business of the recently acquired Texas Instruments' Defense Systems and Electronics unit, were about \$13 billion. Raytheon produces aircraft, guided missiles, space vehicles, radar systems, and defense electronics equipment.

Hughes Aircraft is an indirect subsidiary of General Motors, and has its headquarters in Arlington, Virginia. Hughes Aircraft produces electro-optical systems, guided missiles, radar, and other defense electronics. It had 1996 sales of \$6 billion.

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